

Central Securities Depository Regulation (CSDR) – regulation: Where are we standing?

Impact on (I)CSD client base and lessons to be learned for AECSD CSDs

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Will CSDR become a game changer in the European post-trading environment?



Agenda

1. CSDR Overview
2. CSDR Timeline
3. CSDR requirements with EU CSDs and customer impacts

The following information is based on Clearstream's own interpretations, and is provided to support Clearstream's customers with their specific understanding of the CSD Regulation. This information does not constitute – nor is it intended to act as – any form of formal legal advice

1. CSDR Overview

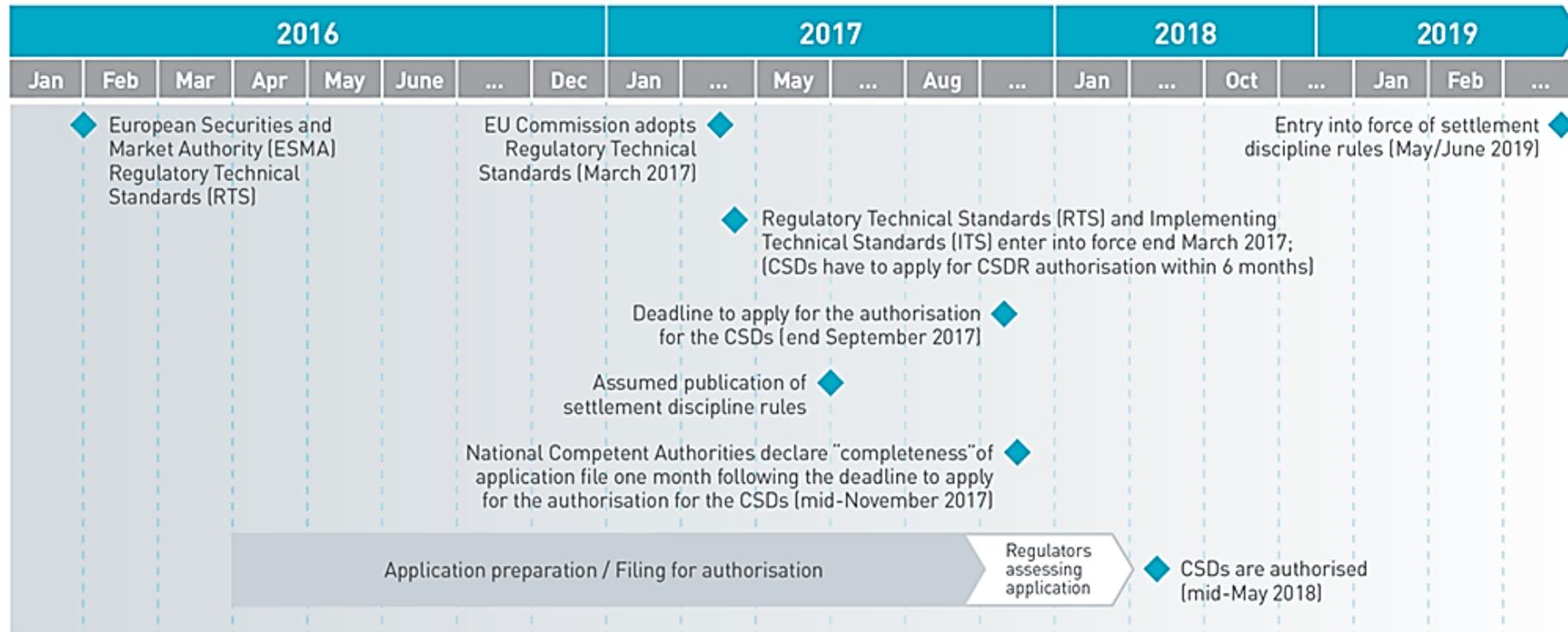
- EU Regulation on settlement and central securities depositories
- Regulation: **EU 909/2014**, Entry into force: **17 September 2014**
- **Applies** to European Central Securities depositories (CSDs) and any entities being participants in those CSDs.
- **Objective:** to **increase the safety and efficiency of securities settlement** and the settlement infrastructures in the EU, **to harmonise the different CSDs rules** in Europe and to establish an **enhanced level playing field** among these CSDs



Enhanced operational efficiency and asset protection

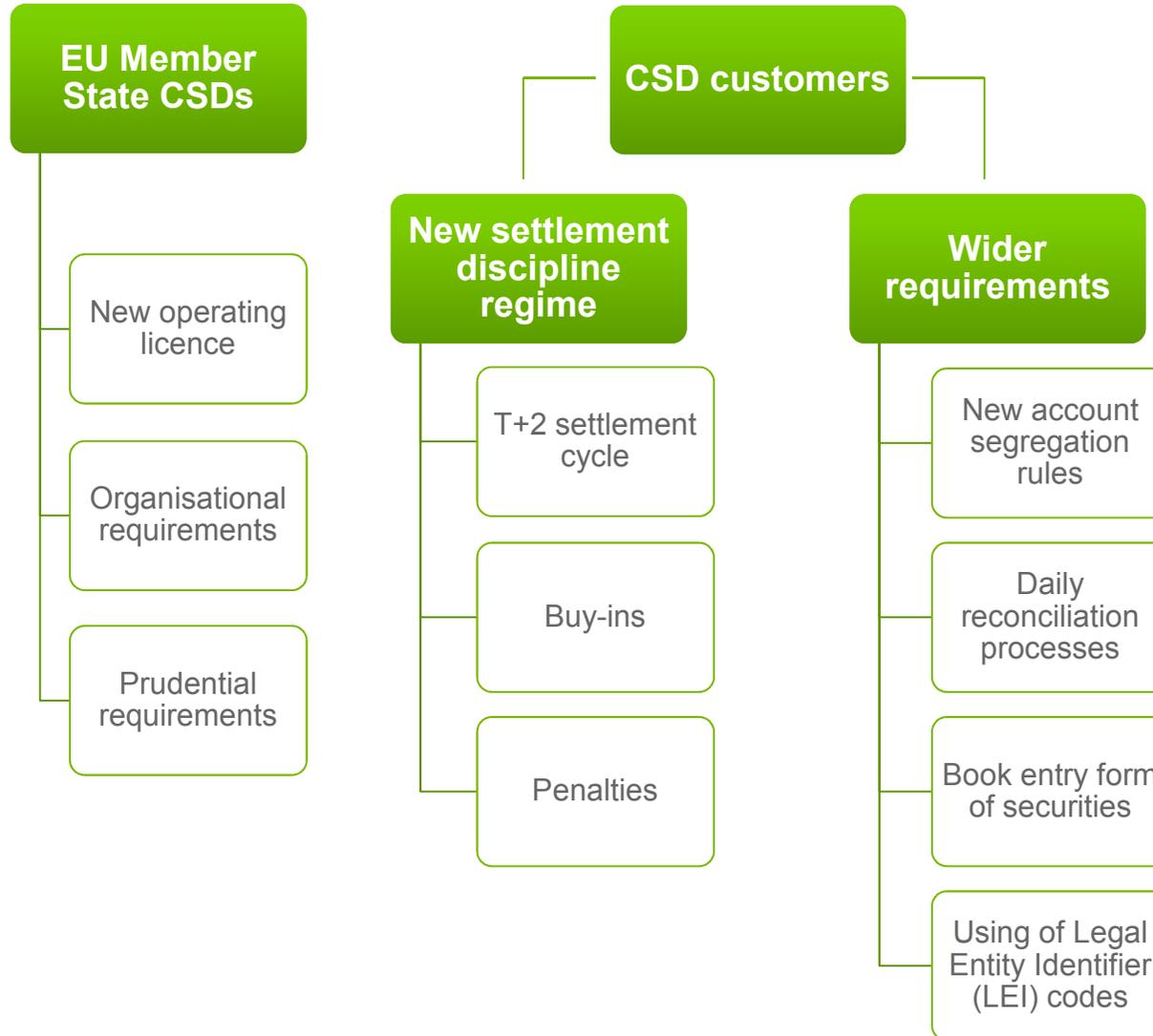
More secure and
competitive EU
capital markets

2. CSDR Timeline



◆ Regulatory milestones CSDR application **Note:** Timeline for settlement discipline rules is subject to change by Competent Authorities.

3. Key impacts



3.1. New operating licence – introducing a European passport for CSDs

CSDs are to apply for a universal **CSD license to operate**

- The license sets out **performance and operational criteria** all CSDs must fulfil including **enhanced governance, price transparency** and more stringent prudential requirements
- CSD **customer on-boarding and risk management protocols** are also addressed to help enhance asset protection
- Clearstream CSDs are on target with reviewing their operations and internal procedures, and adjusting these, where required, to comply with CSDR.

What kind of licences Clearstream applies for?

CBL: CSD Licence, Banking Licence and an Interoperable Link Licence for the Bridge with Euroclear.

CBF: CSD Licence and Banking Licence

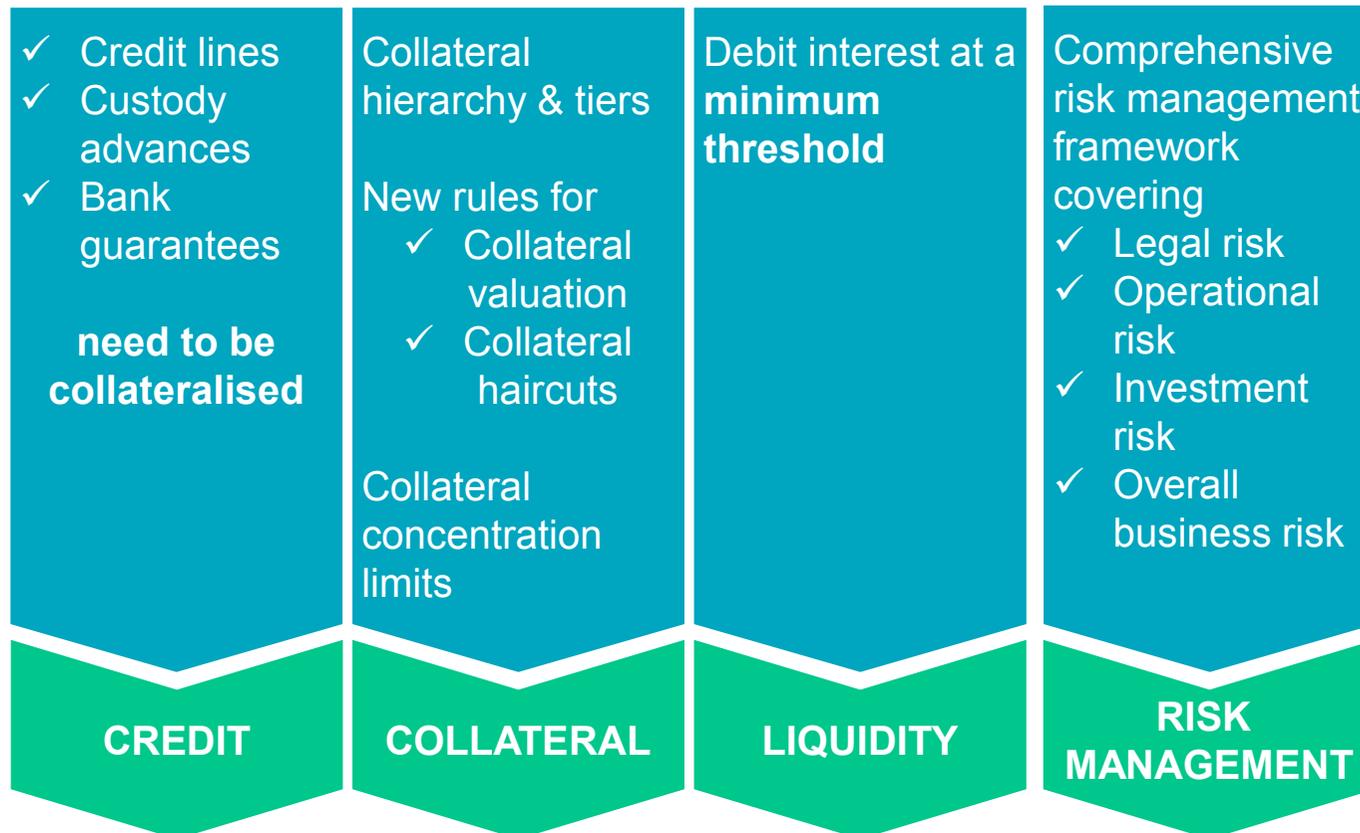
LuxCSD: CSD Licence

CSD applications due end September 2017

Clearstream's
CSDs are on track
with preparing their
applications to
apply for the
relevant CSDR
operating licences

CSDR requirements with customer impact

Prudential Requirements



New Settlement Discipline Regime

Buy-ins and Penalties (1/3)

- CSDs will require customers to ensure settlement on the **intended settlement date**. Settlement efficiency will be monitored and reported to regulators: individual CSD customers' performance will be reviewed by CSDs, sanctions for non-compliance may apply.
- A new settlement discipline regime will introduce **cash penalties** and mandatory **buy-ins** when settlement fails.

Final ESMA technical standards for "Settlement Discipline" are still pending, entry into force is expected mid-2019 (tbd)

3.2. CSDR Settlement Discipline Regime

Buy-ins and Penalties (2/3)

- **Penalties:** CSDs will calculate and report the amounts due on a daily basis; collection/ redistribution will take place at least monthly.
- **Buy-in:** trading parties, central counterparties (CCPs; for cleared business) will be required to initiate the buy-ins and report the outcome to the CSDs.
- **Buy-in:** trading parties, central counterparties (CCPs; for cleared business) will be required to perform cash compensation in case the buy-in fails and report details to the CSDs.

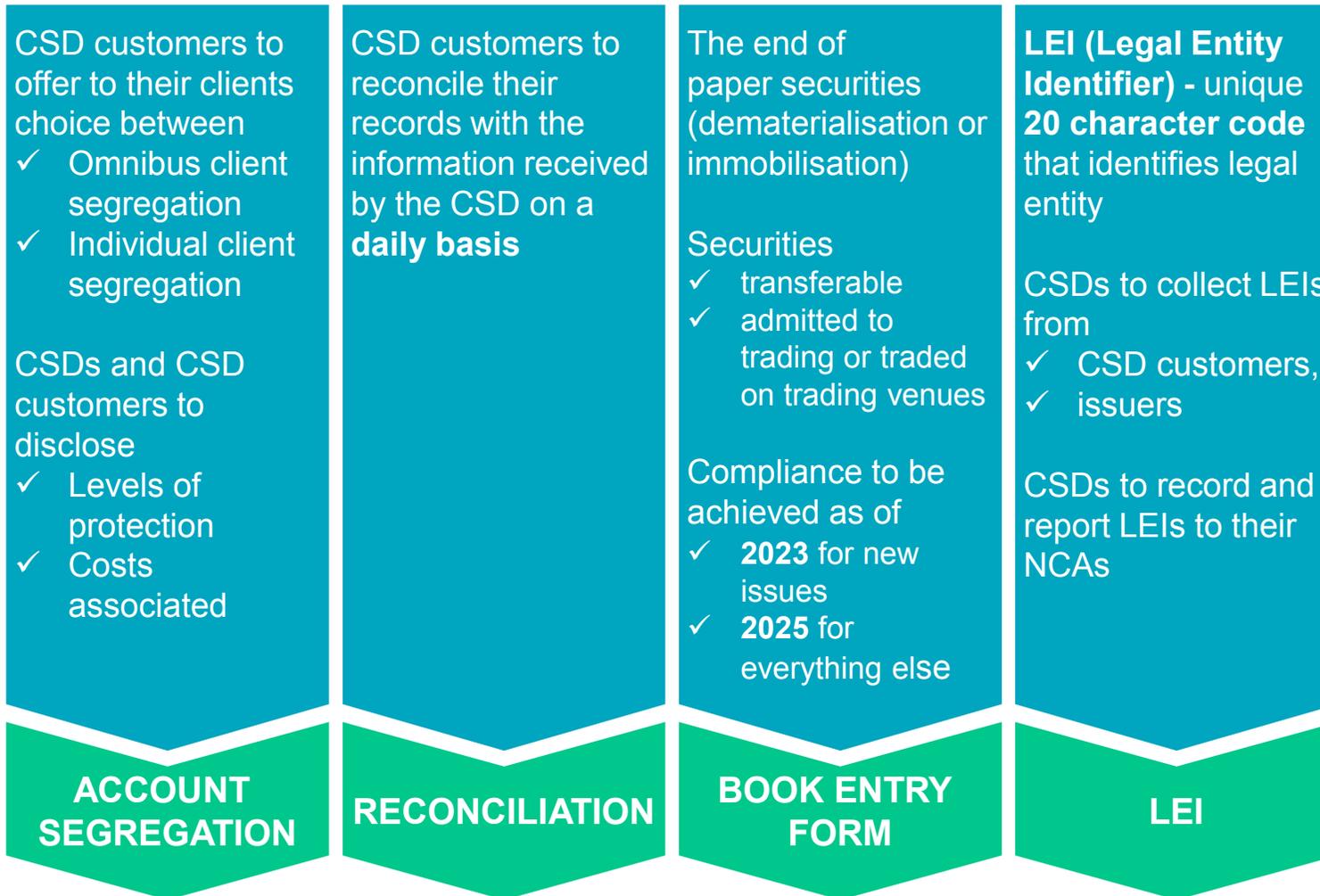
3.2. CSDR Settlement Discipline Regime Buy-ins and Penalties (3/3)

- Settlement status: A settlement instruction is matched, but fails due to lack of securities for three business days after the intended settlement date.
- Let us suppose that the reference price (in this example being the closing price of the shares on the most relevant market in terms of liquidity) to be applied for penalty calculation is as follows:
 - Day 1: EUR 100
 - Day 2: EUR 115
 - Day 3: EUR 90
- The penalty would therefore be calculated as follows:
 - Penalty day 1: 1,000 shares x 0.01% x 100 EUR = 10 EUR
 - Penalty day 2: 1,000 shares x 0.01% x 115 EUR = 11.50 EUR
 - Penalty day 3: 1,000 shares x 0.01% x 90 EUR = 9 EUR
 - **Total penalty amount = 30.50 EUR.**
- The total penalty amount would have to be paid by the customer that is failing to deliver the securities, to the customer suffering from the failure to receive securities. Such payments will be facilitated by the CSD.

Example scenario of
the cash penalty rates
in practice

- CSD =
Clearstream
Banking AG
- Securities =
Internal delivery of
1,000 liquid shares
against payment of
EUR 100,000.
- The applicable
daily penalty rate
would in this
example be 1.0
basis point

3.3. Wider customer impacts



CSDR – Game Changer in the European Post-Trade Landscape



Integrated Infrastructure



CSDR benefits

- Systemically important securities infrastructures are subject to **common EU rules**
- CSDR addresses the costly fragmentation of securities settlement market infrastructure
- CSDR stimulates competition between CSDs

CSDR challenges

- Represents a big structural change in market practices
- Significant **technical changes for CSDs** to make the necessary adaptations
- Capacity for domestic CSDs to innovate in an environment of a change
- National protectionism

Relevance to AECSD CSDs

- ✓ Are you client/participant of CSDR impacted (I)CSD?
- ✓ Do I need to review my set-up?
- ✓ Do I advise my clients?
- ✓ What elements can be applied in my market?
- ✓ Can I apply CSDR principles to cross-border securities settlements in my region?

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